

SENATE BILL REPORT

SB 6573

As Reported By Senate Committee On:
Ways & Means, February 12, 2008

Title: An act relating to providing additional revenues for public safety, including law enforcement officers and firefighters plan 2 pension plan benefits.

Brief Description: Providing additional revenues for public safety.

Sponsors: Senators Kilmer, Brandland, Kauffman, Delvin, Benton, Roach, McAuliffe and Rasmussen; by request of LEOFF Plan 2 Retirement Board.

Brief History:

Committee Activity: Ways & Means: 2/5/08, 2/12/08 [DPS].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6573 be substituted therefor, and the substitute bill do pass.

Signed by Senators Fraser, Vice Chair, Capital Budget Chair; Pridemore, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Carrell, Hatfield, Hewitt, Hobbs, Honeyford, Keiser, Kohl-Welles, Parlette, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Tom.

Staff: Erik Sund (786-7454)

Background: The Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) provides retirement benefits to full-time, fully-compensated law enforcement officers and fire fighters employed by the State, cities, counties, and special districts and who were first employed in an eligible position on or after October 1, 1977.

LEOFF 2 is funded by contributions to the LEOFF 2 Retirement Fund from member, employer, and State contributions, as well as investment earnings on the funds contributed. The total level of contributions required in a given period is allocated as follows: 50 percent is paid by the members, 30 percent is paid by employers, and the remaining 20 percent is paid by the State. Investment of monies in the LEOFF 2 Retirement Fund is handled by the State Investment Board (SIB).

The Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 Board (the Board) is responsible for the adoption of the economic assumptions, actuarial methods, and contribution rates LEOFF 2. The Board also studies issues related to plan funding and benefits, and recommends legislation to the Legislature as required. The expenses of the

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board are paid from the LEOFF 2 Retirement Fund, with the LEOFF 2 Expense Fund serving as an intermediary expense account. The day-to-day administration of LEOFF 2 is handled by the Department of Retirement Systems (DRS).

Summary of Bill (Recommended Substitute): By September 30 following each fiscal year in which general state revenues increased by more than 1 percent from the prior fiscal year, the Legislature shall appropriate funds for transfer to a new Local Public Safety Enhancement Account (LPSEA). The amounts of the transfers made to the LPSEA if general state revenues increase sufficiently to trigger a transfer are: \$1 million in fiscal year 2009; \$2 million in fiscal year 2010; \$4 million in fiscal year 2011; \$8 million in fiscal year 2012; \$16 million in fiscal year 2013; \$32 million in fiscal year 2014; and, in any fiscal year after 2014, the lesser of one-third of the increase amount or \$50 million. After appropriation, half of the funds moved to the LPSEA will then be transferred to a new Law Enforcement Officers' and Fire Fighters' Retirement System Benefits Improvement Account (Benefits Improvement Account) created within the LEOFF 2 Retirement Fund. The remaining funds in the LPSEA are distributed to local governments for public safety purposes. General state revenues means total revenues to the General Fund-State less state revenues from property taxes.

Money transferred to the Benefits Improvement Account can only be used to fund the member, employer, and State cost of financing benefit improvements adopted by the LEOFF 2 Retirement Board or to cover the investment-related expenses of the account. The State Investment Board (SIB) is authorized to adopt investment policies and invest the money in the benefits improvement account. The LEOFF 2 Board is given the authority to establish all other policies relating to the benefits improvement account, which must be administered in an actuarially sound manner. Funds in the benefits improvement account must not be considered assets of the plan and included in contribution rate calculations by the State Actuary until so directed by the LEOFF 2 Board for purposes of financing benefits adopted by the Board.

The State Treasurer is responsible for the distribution of the remaining funds in the LPSEA to local governments. Each jurisdiction's allocation is proportionate to the share of LEOFF 2 membership that it employs. LPSEA funds may only be used for the purposes of enhancement of criminal justice services, information and assistance programs for families of at-risk or runaway youth, or other public safety purposes.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Substitute): The transfer of funds from the LPSEA to local government jurisdictions and the LEOFF 2 Benefits Improvement Account is made subject to appropriation. The amount of the general state revenues diverted to the LPSEA is phased in, starting at \$1 million in fiscal year 2009. Starting in 2015, the amount transferred to the LPSEA will be calculated in the same manner as called for in the original bill, with the amount of the transfer equal to the lesser of one-third of the general state revenue increase amount or \$50 million.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill: PRO: This bill is the first priority of the LEOFF Plan 2 Retirement Board. The retirement age in LEOFF 2 reflects the physically demanding nature of a career in fire fighting or law enforcement; however the benefit formula does not. The current benefit design does not produce a sufficient level of retirement income. In 2006 the average LEOFF 2 member leaving service due to retirement received a take-home benefit sufficient to replace just 38 percent of the member's working salary. Working until a later age may allow members to earn a greater benefit, but the physical demands are often too great and public safety employees are at a much greater risk of injury after age 50. This bill would also assist local governments in meeting the ever increasing cost of providing adequate public safety services, and in recruiting and retaining qualified fire fighters, and especially law enforcement officers. A substitute bill is being negotiated that will phase in the fund transfers in order to ease the fiscal impact on the state. These investments are appropriate today, and will only cost more if delayed until a future date.

Persons Testifying: PRO: Jamie Daniels, Washington Council of Police & Sheriffs; Kelly Fox, Washington State Council of Fire Fighters; Bill Hansen, Executive Director, Fraternal Order of Police; Jim Justin, Association of Washington Cities; Ron Main, Council of Metropolitan Police and Sheriffs; Steve Nelsen, LEOFF Plan 2 Retirement Board.